

Department of Natural Resources

DIVISION OF OIL AND GAS

550 W. 7th Avenue Suite 1100 Anchorage, Alaska 99501-3560 Main: 907.269.8800 Fax: 907.269.8939

May 16, 2019

Keegan Fleming Drilling Environmental Specialist Hilcorp Alaska, LLC 3800 Centerpoint Drive Anchorage, AK 99503

RE: LOCI 19-001, Hilcorp Alaska, LLC, Granite Point Unit, Granite Point Platform, Drilling Program 2019 Unit Plan of Operations Decision

Dear Mr. Fleming:

I. INTRODUCTION

On March 26, 2019 Hilcorp Alaska, LLC (HAK) submitted a request to the Division of Oil and Gas (Division) for approval of a Unit Plan of Operations (Plan) to carry out the 2019 Granite Point Drilling Program in the Granite Point Unit (GPU). The Granite Point Platform (GPP) is located in marine waters approximately 15 miles north of the town of Nikiski and 10 miles southwest of the Native Village of Tyonek. Approval of this Plan, along with approvals from other state and federal agencies (Agencies), is necessary for HAK to carry out drilling activities. Any further development is subject to additional review and approval by the Department of Natural Resources (DNR).

II. SCOPE OF DECISION

The DNR Commissioner has delegated authority for approval of Unit Plan of Operations activities to the Division under Department Order 003 in accordance with Alaska Statute (AS) 38.05 and 11 Alaska Administrative Code (AAC) 83.346. As set forth below, the Division has evaluated the proposed Plan to determine if sufficient information as required by 11 AAC 83.346 is provided. The Division has also considered that criteria set forth in 11 AAC 83.303. In approving a Plan, the Division may require amendments that it determines are necessary to protect the State's interests (11 AAC 83.346(e)).

This Plan will review the 2019 Granite Point Drilling Program and associated operations necessary to conduct the proposed work at the drilling platform. HAK proposes to drill up to four sidetrack wells from existing wellbores at the GPP using the Spartan-151, or similar, jack-up rig positioned over the GPP. The proposed wells will be drilled to bottom-hole depths between 7,000 to 16,000 feet. Rig mobilization is expected to begin by June 1, 2019, with an expected duration of 30-60 days per well completion. Drilling activities and rig demobilization will conclude by November 15, 2019.

This authorization pertains to rig placement and related development drilling activities only.

The following Plan elements require authorization from other agencies:

Agency	Permit(s)		
Alaska Department of	GPP Title V Permit Modification, Alaska Pollutant		
Environmental Conservation	Discharge Elimination System (APDES) General		
(ADEC)	Permit, APDES Individual Permit, Oil Discharge		
	Prevention and Contingency Plan (ODPC)		
Alaska Oil and Gas Conservation	Sundry Approvals and Permit to Drill		
Commission (AOGCC)			
US Army Corps of Engineers	GPP Construction Permit Modification		
(USACE)			
US Environmental Protection	Spill Prevention, Control, and Countermeasures Plan		
Agency (EPA)			
US Coast Guard (USCG)	Vessel and Facility Response Plans, Private Aids		
	to Navigation Permit, Notice to Mariners		
National Marine Fisheries Service	Incidental Take Permit and Letter of Authorization		
(NMFS)			
US Fish & Wildlife Service	Incidental Take Permit and Letter of Authorization		
(USFWS)			

III. LAND STATUS

The GPU comprises State submerged lands.

A. Division's Leased Lands: This section refers to Division managed oil and gas leases regardless of ownership of overlying surface lands.

Oil and Gas Leas: 18761

Oil and Gas Mineral Estate Lessee(s): Hilcorp Alaska, LLC Surface Ownership and Access Agreement: State of Alaska

Special Use Lands: N/A Jointly Managed Lands: N/A

Other Considerations: Submerged lands classified as General Use Land

Project Components	Meridian, Township, Range, & Section(s)	GPS Coordinates
Drill sidetrack wells through existing wellbores (three primary targets identified)	S010N012W, Sec 13&24	-151.33148°, 60.95815°

B. State of Alaska Surface Lands: This section refers to State owned surface lands where no Division managed oil and gas leases exist.

Not applicable to this project.

C. Non-State Lands: This section refers to areas where the State does not own the surface land and no Division managed oil and gas leases exist.

Not applicable to this project.

IV. PROPOSED OPERATIONS

The Plan describes the proposed operations in full detail. Set forth below is a summary of the key details.

A. Sequence and Schedule of Events

Project Milestone #	Project Milestone	Proposed Start Date	Proposed End Date
1	Rig mobilization	6/1/2019	6/14/2019
2	Drill and complete first well	6/15/2019	7/19/2019
3	Drill and complete second well	7/20/2019	8/23/2019
4	Drill and complete third well	8/24/2019	9/27/2019
5	Drill and complete fourth well	9/28/2019	10/31/2019
6	Rig demobilization	11/1/2019	11/15/2019

B. Well Sites

All wells will be drilled at the GPP. HAK has contracted the Spartan-151 (Spartan), an independent-leg cantilever jack-up rig, to be mobilized to Cook Inlet to accomplish the drilling activities. HAK plans to cantilever the Spartan, or similar, jack-up rig over the GPP and drill up to four additional sidetrack wells from existing wellbores. Wells will be drilled to bottom-hole depths of approximately 2,100 to 4,900 meters (7,000 to 16,000 feet). It is expected that each well will take about 30-60 days to drill and complete.

C. Buildings

The GPP is an existing permanent structure. No additional structures or facilities are proposed as part of this authorization.

D. Fuel and Hazardous Substances

All fuel required for drilling exploration activities will be contained on the Spartan rig in fuel storage containers. Fuel transfer procedures and safety precautions will be included in the drilling contractor's Spill Prevention, Control, and Countermeasures (SPCC) Plan. Fuel storage, handling, transfers, and spill reporting will be conducted in accordance with the regulatory requirements as described in the SPCC and ODPC Plans. During equipment storage or maintenance, the area will be protected from leaking or dripping fuel and hazardous substances using drip pans or other liners designed to catch and hold fluids under the equipment or by creating a specialized area using an impermeable liner or other suitable containment mechanism. During fuel or hazardous substance transfers, secondary containment or a surface liner will be placed under all container fuel tank inlet and outlet points, hose connections, and hose ends. The Spartan will be equipped with appropriate spill kits and absorbent material to immediately contain and clean up product in the event of a spill. Trained personnel will attend transfer operations at all times. Fuel will be periodically transferred to the Spartan via support vessel.

Any transfer or bunkering of fuel for offshore activities will comply with USCG bunkering at sea regulations. Contractors associated with this project will maintain SPCC plans for drilling and fuel storage and transfer activities.

E. Solid Waste Sites

Solid wastes generated on the Spartan will be stored in appropriate containers as they are generated. Solid wastes include hazardous waste (glycol, lube oil, hydraulic fluid, batteries, and chemicals), oily rags, scrap metal, welding scrap, food wastes, and general refuse. Other solid waste (e.g., packaging, domestic trash) from the GPP will be contained in plastic bags, or other appropriate container, placed in a trash compactor on the facility and transported for disposal at the Kenai Peninsula Borough (KPB) Central Peninsula Landfill or another permitted disposal facility. Domestic and sanitary wastewater will be treated using a marine sanitation device and discharged into Cook Inlet per the APDES permit. Drilling wastes, including drilling muds and cuttings, will be discharged to Cook Inlet in accordance with the existing APDES Permit.

F. Water Supplies

Potable water will be transferred to the Spartan by support vessel. Water for drilling activities will be pumped from Cook Inlet in accordance with the APDES permit.

G. Utilities

The Spartan is a self-contained unit that will supply all of its own utilities. The rig will be powered by three diesel engines and three AC generators. An additional engine and AC generator are on standby in case of emergency. Utility and instrument air is provided by three medium-pressure air compressors and one cold start air compressor. The Spartan contains three boilers, six air conditioning units, and one water distillation unit.

H. Material Sites

No material sites will be utilized as part of this authorization.

I. Roads

No roads are proposed as part of this authorization.

J. Airstrips

No airstrips are proposed as part of this authorization. An existing helipad is present on the GPP.

K. All Other Facilities and Equipment

A variety of offshore support vessels and helicopters will be used throughout exploration activities. The vessels may support the rig at any time and will originate from Nikiski, from either the Offshore Systems Kenai Dock or Rig Tender's Dock. The Spartan will be the only equipment used in support of drilling exploration activities. Upon completion of development drilling activities, the Spartan will be removed from the project location.

L. Rehabilitation Plan

The proposed operations are temporary in nature and will be conducted from a jack-up drilling rig located at an existing platform.

M. Operating Procedures Designed to Minimize Adverse Effects

Fish and Wildlife Habitats: Primary, secondary, and tertiary containment will be implemented to mitigate risks of a spill from any storage tanks, process equipment, or fuel lines. Adverse effects from noise will be minimized during drilling by implementing a buffer zone encompassing the 120-decibel sound pressure level isopleth. At least one Protected Species Observer (PSO) with stop-work authority will monitor the buffer zone during daylight hours. All platform, helicopter, and vessel crews will be instructed to assist with the detection of Cook Inlet beluga whales and Stellar sea lions.

Historic and Archeological Sites: No known historic or archaeological sites are present within the project area. All physical impacts are constrained to the Cook Inlet seabed immediately adjacent to the GPP.

Public Use Areas: No public use areas are present within or near the project area. The drilling activities at the GPP are located on State submerged lands.

In approving a Plan, DNR may require amendments necessary to protect the State's interest (11 AAC 83.346(e)). The Division has determined that to protect the State's interest, it is necessary to incorporate into the Plan the Cook Inlet Areawide Mitigation Measures. HAK addressed these mitigation measures in the application process, but it is necessary to amend the Plan to make clear that the Plan incorporates the Cook Inlet Areawide Mitigation Measures.

All plan applicants must complete a mitigation measure analysis demonstrating that each mitigation measure is satisfied or inapplicable to the proposed Plan, or that the applicant is seeking an exception. HAK has requested no exceptions for this Plan.

The Division has determined that to protect the State's interest, it is necessary to incorporate into the Plan the Cook Inlet Areawide Mitigation Measures as amendments and stipulations to this Plan (11 AAC 83.346(e)).

- V. CONSIDERATION OF UNIT PLAN OF OPERATIONS REQUIREMENTS UNDER 11 AAC 83.346(c-d) and 11 AAC 83.390
- A. Full Payment of Damages to the Surface Owner 11 AAC 83.346(c) The State owns the surface and full payment of damages to the State are accomplished through a bond posted by the applicant discussed in subsection C below. Thus HAK has provided for full payment of damages prior to starting operations (11 AAC 83.346(c).
- B. Plan Sufficiency 11 AAC 83.346(d)

A proposed plan must include statements, maps, or drawings setting forth

- (1) the sequence and schedule of operations;
- (2) the projected use requirements directly associated with the proposed operations;
- (3) plans for rehabilitation; and
- (4) a description of operating procedures to prevent or minimize adverse effects on natural resources and concurrent uses of the area (11 AAC 83.346(d)).

The information in Section IV. Proposed Operations, above, and additional information contained in HAK's proposed Plan satisfy the requirements for a plan under 11 AAC 83.346(d)

and thus provide the Division with sufficient information available at this time to determine the surface use requirements and impacts directly associated with the proposed operations.

C. Oil and Gas Lease Bond 11 AAC 83.390

The State owns all the submerged lands where the proposed Plan activities will be located. The State owns all the mineral estate from which the Plan proposes to produce. For the State, a lessee provides for payment of damages by posting a bond, and remains liable for full damages under the lease. HAK has a Statewide Oil and Gas Bond in the amount of \$500,000 for operations on ADL 18761 and continuing liability under the lease.

VI. CONSIDERATION 11 AAC 83.303 CRITERIA

A. Protection of Public Interest

The Division has considered the public interest, considering statutory provisions that provide for conserving natural resources through unitized development (11 AAC 83.303(a); AS 38.05.180(p)). The legislature has declared the public has an interest in oil and gas development to maximize economic and physical recovery, maximize competition, and maximize use of Alaska's human resources (AS 38.05.180(a)(1)).

This Plan addresses the means for carrying out the 2019 Drilling Program which, as determined by the Granite Point Unit Plan of Development (POD), is necessary for maximizing recovery of the oil and gas resources. Additionally, development under this Plan will contribute positively to the State by increasing overall oil and gas production in the area.

B. Conservation of Natural Resources

The Division has considered whether the Plan promotes conservation of all natural resources, including all or part of an oil or gas Plan, field, or area (11 AAC 83.303(a)(1)). Conservation, in this context, means maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources (11 AAC 83.395(1)). Development within a unit is intended to provide more efficient development than on the individual leases that make up the unit, and this Plan considers the development of the Unit, not single leases. Efficient development creates less impact on the land and promotes maximum use of all natural resources in the area, consistent with the public interest.

C. Prevention of Economic and Physical Waste

The Division has considered whether the Plan promotes the prevention of economic and physical waste (11 AAC 83.303(a)(2)). Issues of economic and physical waste are carefully considered during Unitization and annually thereafter in the Granite Point Unit POD; this Plan conforms to the current Granite Point Unit POD on file with the Division's Units Section.

D. Protection of All Parties of Interest, Including the State

The Division has considered whether the Plan provides for the protection of all parties of interest, including the State (11 AAC 83.303(a)(3)). The parties of interest to a unit plan are the unit operator and working interest owners. The State has an economic interest in the oil and gas resources because it receives royalties from production. It is further in the State's best interest to encourage assessment of oil and gas resources, recognize the costs of exploring in varied geographic regions, and minimize the adverse impact of exploration, development, production, and transportation activity (AS 38.05.180(a)(2)).

Without approval of a Plan, HAK cannot conduct the 2019 Granite Point Drilling Program, and the State cannot recover royalties from that development. The Plan thus protects the Unit Operators', working interest owners' and the State's interests in developing the resources.

E. Environmental Costs and Benefits

The Division has considered the environmental costs and benefits of unitized development outlined in this Plan and through the Granite Point Unit POD and annual updates, on file with the Units Section (11 AAC 83.303(b)(1)); this Plan conforms to the current POD on file with the Division.

The Cook Inlet Areawide Mitigation Measures, incorporated into this Plan by amendment, include measures to protect habitat, fish, and wildlife. These mitigation measures include measures to protect habitat, fish, and wildlife, protect subsistence resources, and limit the impact from fuel and hazardous substances (Cook Inlet Areawide Final Findings 9-1 to 9-12). Additional operating procedures designed to minimize adverse effects on other natural resources and other uses of the unit area and adjacent areas are discussed in Section IV: M of this decision.

F. Geological and Engineering Characteristics of Hydrocarbons DNR previously considered the geological and engineering characteristics of a potential hydrocarbon accumulation or reservoir when it approved the unit agreement (11 AAC 83.303(b)(2)); this Plan conforms to the current Granite Point Unit POD on file with the Division's Units Section.

G. Prior Exploration Activities

The Division has considered prior exploration activities in the Plan area pursuant to 11 AAC 83.303(b)(3). The 2019 Granite Point Drilling will be drilling sidetrack wells off of existing wellbores at the GPP. Extensive exploration activities have taken place from this location.

H. Plan of Development

The Division has considered the plans for development set forth in and approved by DNR in the POD (11 AAC 83.303(b)(4)). The Granite Point Unit POD, approved on 5/14/2018 approves HAK to carry out operations in the proposed Plan.

I. Economic Costs and Benefits to the State

The Division has considered the economic costs and benefits to the State (11 AAC 83.303(b)(5)). Without approval of a plan, HAK will be unable to proceed with developing 2019 Granite Point Platform Drilling, which will cost the State the economic benefit of the royalties, as well as other economic benefits that flow from production.

J. Other Relevant Factors to Protect the Public Interest

The Division has considered other relevant factors necessary or advisable to protect the public interest (11 AAC 83.303(b)(6)). These other factors consist of the mitigation measures (Section IV: M of this document) that will apply to this Plan, and the necessity to obtain other permits and approvals by different Agencies and landowners.

VII. CONSULTATION WITH OTHER GOVERNMENT ENTITIES

In reviewing the proposed Plan, the Division considered the fact that HAK may require approvals from Agencies for other elements of its project. Although mentioned in the Plan and above, these aspects of the project are not operations being approved by this decision and the Division offers no opinion on whether an agency should or should not approve these activities.

In addition to considering the approvals required by Agencies as they relate to this decision, the Division provided an agency review and comment opportunity for the activities proposed for authorization under this decision. The following government entities were notified on 4/9/2019 for comment on the Plan: ADEC, ADF&G, ADNR, NMFS, USACE, and USCG. The comment deadline was 4:30 pm Alaska time on 4/29/2019. No comments were received.

IX. CONDITIONS OF APPROVAL

Having considered the proposed project, the Division approves the Plan as amended and modified by this decision and subject to the below conditions of approval.

To protect the State's interest, the Division finds that it is necessary to amend the Plan to incorporate the following Conditions of Approval:

- a) The applicant shall defend, indemnify and hold the State of Alaska harmless from and against any and all claims, damages, suits, losses, liabilities and expenses for injury to or death of persons and damage to or loss of property arising out of or in connection with the entry on and use of State lands authorized under this approval by the applicant, its contractors, subcontractors and their employees.
- b) The applicant shall inform and ensure compliance with any and all conditions of this approval by its employees, agents and contractors, including subcontractors at any level.
- c) Unless pre-authorized by a general permit, amendments and modifications to this approval require advance notice and must be approved in writing by the DNR.
- d) The Commissioner of the DNR may require that an authorized representative be on site during any operations conducted under this approval. This stipulation is required to ensure that the Division of Oil and Gas meet its statutory responsibilities for monitoring activities taking place on State-owned lands.
- e) A status report for the activities conducted under this approval must be filed with this office on May 1 and November 1 each year, from the date this approval is issued and until a final completion report is filed with the Division. If a lessee requests an assignment, then a status report must also be submitted during the assignment process. Failure to file in a timely manner may result in revocation of this approval.
 - a. Each status report shall include a statement describing and map(s) depicting all operations actually conducted on the leased area as of the date the report is prepared, which includes the location, design and completion status of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment installed.
 - b. Upon completion of operations, the applicant will submit a completion report that will include all information required of a status report described in (a) above as well as a statement indicating the date of operations completion, any noncompliance with the terms of this plan approval of which a reasonable lessee

would have knowledge of, clean-up activities conducted, the method of debris disposal, and a narrative description of known incidents of surface damage.

- f) Notification. The applicant shall notify the DNR of all spills that must be reported under 18 AAC 75.300 under timelines of 18 AAC 75.300. All fires and explosions must be reported to DNR immediately. The DNR 24 hour spill report number is (907) 451-2678; the fax number is (907) 451-2751. The Department of Environmental Conservation (DEC) oil spill report number is (800) 478-9300. DNR and DEC shall be supplied with all follow-up incident reports.
- g) A certified As-Built survey of the improvement shall be provided within one year of placement of the improvement. As-Built must contain a hard copy, as well as a digital GIS file containing a Shapefile or Esri Feature Class.

X. FINDINGS AND DECISION

Having considered the proposed project and based on the foregoing discussion and consideration of issues and conditions of approval, the Division makes the following findings:

- 1. The Plan provides sufficient information, based on reasonably available data, for the Division to determine the surface use requirements and impacts directly associated with the proposed operations.
- 2. The Plan includes statements, maps, or drawings setting forth the sequence and schedule of operations, projected use requirements, description of operating procedures, and a plan of rehabilitation designed to prevent or minimize adverse effects.
- 3. To protect the State's interest and mitigate potential adverse social and environmental effects associated with the Plan, the Division finds it necessary to amend the Plan to incorporate the mitigation measures set forth in the Cook Inlet Areawide Oil and Gas Lease Sale Final Finding.
- 4. All oil and gas activities conducted under oil and gas leases are subject to numerous local, state and federal laws are regulations with which HAK is expected to comply.
- 5. The people of Alaska have an interest in developing the state's oil and gas resources and maximizing the economic and physical recovery of those resources. AS 38.05.180(a).
- Alaska's economy depends heavily on revenues related to oil and gas production and government spending resulting from those revenues. The related revenue sources include bonus payments, rentals, royalties, production taxes, income taxes, and oil and gas property taxes.
- 7. The potential benefits of approving this Plan outweigh the possible adverse effects, which have been minimized through imposition of mitigation measures, conditions of approval, and project specific stipulations, and thus approval of this Plan as modified is in the State's best interest.

Based upon the Plan, supporting information provided by the applicant and the Division's review, determination of applicable statutes and regulations, consultation with other agencies, relevant entities and individuals, public comment, and the above findings related to that Plan, the Division hereby approves the Plan as modified.

Sincerely,

Graham Smith

Permitting Section Manager Division of Oil and Gas 5/14/2019 Date

Appeal

An eligible person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of issuance of this decision, as defined in 11 AAC 02.040(c) and (d), and may be mailed or delivered to the Commissioner, Department of Natural Resources, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 907-269-8918; or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Attachments:

Appendix A: Figures 1-4

ecc: DOG: Graham Smith, Kevin Pike, Corrie Manaois, James Hyun

DMLW: Clifford Larson, Samantha Carroll

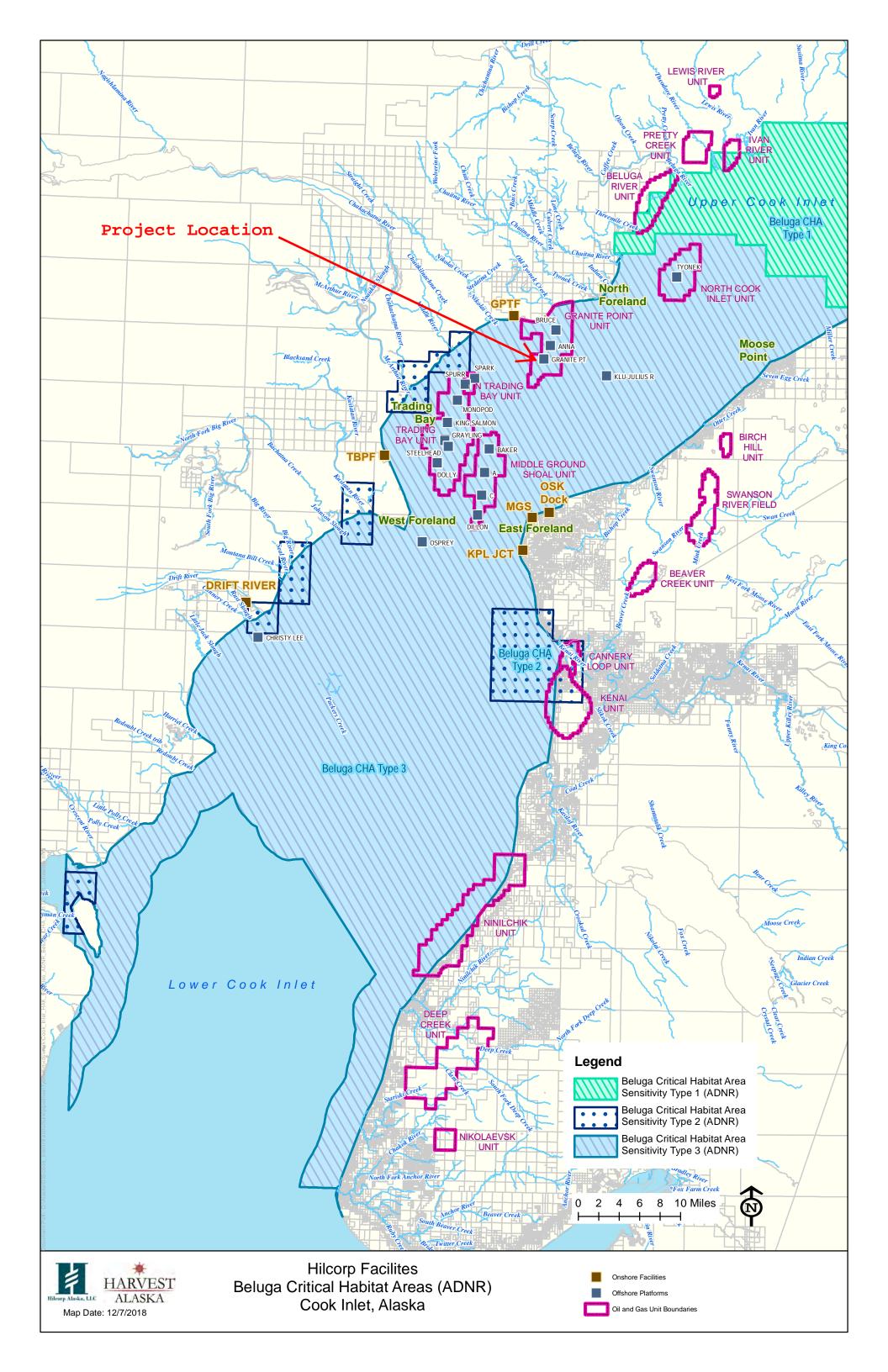
ADF&G: Megan Marie

ADEC: Graham Wood, Oil & Gas

USACE: Kenai Field Office USCG: Mark Ridgway USFWS: Kimberly Klein

NOAA: National Marine Fisheries Service, Anchorage

Kenai Peninsula Borough: Mark Mueller





Hilcorp Alaska, LLC 3800 Centerpoint Dr Suite 1400 Anchorage, AK 99503 Map Date: 2/21/2019

Granite Point Platform Spartan 151 Jack-Up Rig Cook Inlet, Alaska

